

Message Text

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PAGE 01 STATE 226563 TOSEC 270046

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C O N F I D E N T I A L STATE 226563 TOSEC 270046

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E.O. 11652: GDS

TAGS: ECON, PO

SUBJ: BRIEFING MEMORANDUM - PORTUGAL: SOARES TAKES
TOUGH STAND ON ECONOMIC POLICY

FOR THE SECRETARY FROM HARTMAN EUR

1. AS YOU REQUESTED, I HAVE ASKED AMBASSADOR CARLUCCI
TO PROVIDE US WITH AN OVERVIEW OF THE POLITICAL SITUATION
IN PORTUGAL AS IT RELATES TO THE SOARES REQUEST FOR A
BALANCE OF PAYMENTS LOAN. YOU WILL RECALL THAT THE
ORIGINAL REQUEST WAS MADE LAST MARCH WHEN YOU MET WITH
THEN FINANCE MINISTER ZENHA. TREASURY IS RELUCTANT TO
APPROVE LENDING \$300 MILLION TO THE PORTUGUESE UNLESS
THE SOARES GOVERNMENT MEETS STRICT CRITERIA FOR ECONOMIC
RECOVERY. TWO TREASURY EXPERTS ARRIVE IN LISBON SEPTEMBER
14 TO TAKE ANOTHER LOOK AT THINGS, BUT OUR STRONG POLITICAL
INTEREST IN HELPING SOARES MAY LATER MAKE IT NECESSARY
FOR YOU TO TALK WITH SIMON DIRECTLY IF THE LOAN IS NOT
TO BE "STUDIED TO DEATH."

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 226563 TOSEC 270046

2. SOARES' STATEMENTS WERE STRAIGHT-FORWARD. HE

DECLINED TO SUGAR COAT THE PROBLEM AND, INSTEAD, PAINTED A BLEAK PICTURE OF THE PORTUGUESE ECONOMY WHICH HE SAID, WAS IN SERIOUS TROUBLE. THE COUNTRY HAS DISSIPATED 80 OF ITS FOREIGN EXCHANGE RESERVES, INCREASED FOREIGN DEBT TO OVER \$3 BILLION AND PRODUCED A 1976 PUBLIC SECTOR DEFICIT OF \$2.25 BILLION. HE SAID THAT TO CONTINUE THIS TREND WOULD SOON BRING AN END TO PORTUGAL'S NASCENT DEMOCRACY.

3. HIS SPEECH WAS PARTICULARLY TOUGH ON LABOR, THE SECTOR STILL LARGELY CONTROLLED BY THE COMMUNISTS. HE SAID PRODUCTION MUST BE INCREASED, ABSENTEEISM CURBED AND POLITICAL MEETINGS BANNED DURING WORKING HOURS. COMPANIES SHOULD NOT PAY WORKERS WHO ARE ON STRIKE (THE CURRENT PRACTICE). HE PROMISED SPECIFIC LEGISLATION TO:

-- ELIMINATE THE COMMUNIST-DOMINATED INTERSINDICAL MONOPOLY TO ALLOW MORE THAN ONE OFFICIALLY RECOGNIZED LABOR CONFEDERATION.

-- PERMIT DISMISSAL OF WORKERS FOR JUST CAUSE.

-- RESTRICT WAGE INCREASES BEGINNING JANUARY 1.

-- ESTABLISH A NATIONAL WORK WEEK AND LIMIT THE INTERPRETATION OF "OVERTIME" HOURS.

-- END THE ILLEGAL OCCUPATION OF FARM LANDS

4. IN OTHER SECTORS, HE SAID PRICES OF NON-ESSENTIAL GOODS WOULD BE PERMITTED TO RISE, SPECIAL INCENTIVES WOULD BE GIVEN TO STIMULATE NEW INVESTMENT (THE ABOVE LABOR MEASURES WILL HELP) AND TO ATTRACT EMIGRANT SAVINGS, AND A TEMPORARY IMPORT SURCHARGE OF 20-30% WOULD BE IMPOSED. AT THE SAME TIME, A PUBLIC WORKS PROGRAM (ABOUT \$800 MILLION THIS YEAR) WILL BE UNDERTAKEN AND FINANCING WILL BE MADE AVAILABLE SHORTLY FOR HUNDREDS OF SMALL AND MEDIUM SIZED COMPANIES. THE TOTAL PROGRAM WILL HAVE THE EFFECT OF IMPROVING THE

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 226563 TOSEC 270046

BALANCE OF PAYMENTS AND REDUCING UNEMPLOYMENT BUT DOES LESS THAN HOPED FOR IN THE AREAS OF ATTRACTING MORE DOMESTIC AND FOREIGN INVESTMENT AND INCREASING AGRICULTURAL PRODUCTION.

5. FINALLY, SOARES ISSUED A STERN WARNING TO THE COMMUNISTS AND THE ULTRA-LEFT, CLAIMING THAT A CAMPAIGN OF LABOR AGITATION HAS BEEN UNDERWAY SINCE

AUGUST AND EMPHASIZING THAT SECURITY FORCES WILL BACK UP DEMOCRATIC LEGALITY.

6. FROM A POLITICAL VIEWPOINT, SOARES' SEPTEMBER 9 SPEECH ON ECONOMIC POLICY WAS THE TOUGHEST STATEMENT ON THAT SUBJECT SINCE THE APRIL 1974 REVOLUTION. IT WAS, AS SOARES HIMSELF TOLD CARLUCCI "A DECLARATION OF WAR AGAINST THE COMMUNISTS." I THINK HE HAS GONE ABOUT AS FAR IN THE DIRECTION OF AUSTERITY AND RECOVERY AS HIS POLITICAL WRIT PERMITS. EVEN WITHIN THIS LIMIT, HE MUST INEVITABLY INCUR THE HOSTILITY OF THE COMMUNISTS AND THE ULTRA-LEFT, WHO WILL BECOME COMPETITORS IN STRIDENCE AGAINST EACH OTHER AND SOARES. PORTUGAL'S PREDICTED AUTUMN TURBULENCE IS THEREFORE COMING ON STRONG, AND SOARES WILL NEED ALL THE BACKING HE CAN GET TO RIDE IT THROUGH.

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